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¶1. Summary: In response to REF A request, Post updates its reporting on the impact of the global financial crisis on Senegal (REF D). Senegal's financial sector and businesses are facing a severe tightening of local credit -- the result of both the government's poor budget control and the global decrease in liquidity. There are signs that the local population is losing confidence in Senegal's banking sector. The global slowdown and increased levels of unemployment in the U.S. and Europe are already diminishing the amount of remittances being sent to families in Senegal, and poverty-related problems will increase as a result. The government needs to quickly impose budget discipline and avoid exacerbating the current commercial liquidity problem. End summary.

MACROECONOMIC INDICATORS DETERIORATING

¶2. Macroeconomic indicators show that the Senegalese economy slowed in 2008 with annual GDP growth estimated at 3.9 percent, compared to earlier projections of six percent. 2008 inflation is estimated at six percent compared to the government's target of three percent. Senegal's current account deficit reached 12.5 percent of GDP compared to 10.5 percent in 2007. Key export sectors fishing, peanuts, cotton, and unprocessed phosphates have shown significant decreases in export value as a result of unfavorable world prices, market contraction, and weak demand from African countries. On the import side, consumer, business, and the government's budget were hit hard by last summer's increase in world food and petroleum prices. As expected, trade among the West African Economic Monetary Union (WAEMU) member states increased with the crisis. Importers have found it cheaper to purchase goods (fruits, vegetables) from the CFA franc zone countries, especially Cote d'Ivoire, rather than from more distant countries.

¶3. The liquidity in local commercial banks is minimal, due in part to the global credit crunch and in part to the Government's internal debt which increased in 2008 because of USD 218 million in off-budget spending and outstanding unpaid bills of USD 335 million owed to the private sector. There are reports that international banks and multinational corporations have pulled out much of their cash holdings from local affiliates. For the past six months, it has been very difficult for either the government or private companies to expand or secure lines of credit from local banks.

¶4. In early 2009, the signs are not good that the government has a clear plan for dealing with a financial crisis whose biggest impact on the country may be yet to come. President Wade is promising lower prices on many key consumer items and proposing major new public works projects. However, the government does not have the

budget, the donor support, or affordable credit to carry out these programs. Nor is there any plan in place to prop up the local banking sector, despite the fear that property and other private assets, many tied to commercial loans, may drop in value the coming months.

DOMESTIC INDUSTRY'S UNEVEN PERFORMANCE

¶5. The textile industry and the food processing industry are suffering from lower consumer demand. The food industry association reported a sales decline of more than 22 percent in 2008.

¶6. Senegal's construction sector has had a difficult time weathering the duel storms of slowing demand due to global conditions and deteriorated cash and credit options due to the arrears owed to the sector by the government. "The construction and public work sectors, once a driver of the Senegalese economy, are experiencing a complete meltdown fueled by domestic debt," said Abdou Mbaye, Chairman of the Senegalese Professional Association of Banks and Financial Institutions (APBEF).

¶7. According to Omar Diop, General Secretary of Senegal's Banking Association, the global financial and credit crisis has also considerably increased capital flight and lowered the reserve position of the country's major commercial banks. Diop noted that many customers have now withdrawn their deposits in the banks in fear of possible collapse of the country's banking system following reports of bank failures in the West. This fear was exacerbated by the news out of France in January 2008 about large losses at Societe Generale, whose Dakar affiliate is one of Senegal's largest banks. A salesman specializing in commercial and personal safes stated, "the current situation is very unusual; we sold out our entire stock of safes between October and November."

¶8. Some domestic industries have maintained fairly steady production levels and are coping well with the crisis. After a long struggle to secure new financing finally succeeded in June 2008, the ICS phosphates company's production of fertilizer increased 102 percent. Though the market for unprocessed phosphates remains

depressed, total export values grew thanks to a long-term contract with India, market expansion to Iran, Nigeria, Turkey, and strong demand from Mali, Benin, and Burkina. Senegalese cement producer Sococim has seen a drop in local demand, but has still increased production 12 percent in 2008 by expanding exports to neighboring countries.

FEAR OVER A DROP IN REMITTANCES

¶9. Karim Diop, the Director of SAGEF, a real estate company specialized in low-income housing, stated that the construction of family housing will take a dive as the financial crisis affects Senegalese expatriates, given that the flow of transfers will decline sharply. According to the Banking Association's Diop, remittances from overseas Senegalese have dropped 20 percent from October to December 2008. A prolonged drop in these funds, which are a major source of foreign currency for the Treasury and income for the country's poorer population, will lead to not only a reduction in investment, but also a rapid deterioration in social indicators, including an increase in poverty, malnutrition, and illness, and a decrease in school attendance. "Our households adapt to the rhythm of the western economies. Our three sons who live in Italy used to send USD 800 each month, but recently they have only been able to send USD 200 for their wives. Now we have to cut down on expenses. We are trying to keep an eye on the electricity we use and the water we drink," stated Oulimata Niang, mother of the emigrants.

DONORS BRING NEW FUNDS TO THE GOVERNMENT

¶10. For the GOS, getting out of its current budget deficit has proved considerably more difficult than digging the hole, as reported in REFs C and D. The government's poor fiscal management

has been exacerbated by the global credit crunch. It has been very difficult for the government to raise funds over the past six months because of the lack of liquidity in local banks, and a depressed regional market for treasury bonds.

¶11. On December 19 Senegal's second review under its IMF Policy Support Instrument (PSI) was approved (not without difficulty), opening the door to new donor assistance. To help the GOS close its internal debt by paying its private sector arrears, the IMF board approved USD 75.6 million under the Exogenous Shock Facility and the French Development Agency provided a non-concessional loan of approximately USD 182 million. (Both of these measures will be disbursed in two tranches, with a successful 3rd PSI review a requirement for the second payment.) The African Development Bank (AfDB) and the Netherlands agreed to disburse USD 23 million and USD 14.5 million respectively in direct budget support.

COMMENT: WHAT'S NEXT

¶12. Senegal has not yet been hit hard by the toxic assets dynamic of the financial crisis, but various repercussions are impacting the country's financial sector, its businesses, the government's budget, and anti-poverty efforts. In 2009, Senegal has the potential for good agriculture receipts and will benefit from some new foreign investments, which could help the country's economic growth reach closer to five than two percent. However, the government's goal, supported by many donors, of sustained growth of seven percent or higher, is not on the horizon.

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